



Excise Taxes Newsletter

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CIGARETTE AND TOBACCO PRODUCTS TAXES

1. Reminders for retailers

You cannot sell to other retailers

We'd like to remind retailers that you cannot legally sell cigarettes or tobacco products to other retailers or anyone else who intends to resell those products. To sell to a retailer or reseller, you must be licensed as a cigarette or tobacco products *wholesaler*.

If you'd like to obtain a wholesaler license, please contact the Excise Taxes and Fees Division at 800-400-7115 or visit our website and download the applications at www.boe.ca.gov/sptaxprog/sptaxforms.htm.

Make sure your records show that the excise taxes have been paid

Please remember that you must maintain records showing that excise taxes have been paid on all of the cigarettes and tobacco products you sell. The invoices you receive from wholesalers and distributors are required to show that taxes have been paid.

Those invoices must include a statement that says, "All California cigarette and tobacco product taxes are included in the total amount of this invoice." The invoices must also state the wholesaler's or distributor's license number as well as your license number.

If you do not have invoices to show that the excise tax has been paid on your cigarette and tobacco product inventory, your inventory may be subject to seizure.

As a licensed retailer, you must

- Purchase cigarettes and tobacco products only from licensed distributors and wholesalers (see next section)
- Retain all invoices
- Make sure those invoices include all required information

Make sure suppliers are properly licensed

If your cigarette and tobacco products supplier is not properly licensed as a wholesaler or distributor, you cannot legally buy from them and you may be subject to criminal penalties, civil penalties, or both. To check on the status of your supplier's licenses, see our website:

- List of licensed distributors and wholesalers:
<http://www.boe.ca.gov/sptaxprog/pdf/cigdistrib-wholsr.pdf>
- Look up supplier by license number:
<https://efile.boe.ca.gov/boeweb/services/verification.jsp?action=SALES>

2. Distributors: You must complete your Schedule F and Schedule T

We have noticed that some distributors are filing incomplete returns and reports. You must complete and send in Cigarette Schedule F and Tobacco Schedule T even if you have no sales to report on them for the period.

If you don't include the completed schedules when you file, your return or report will be considered late and we may revoke your license. If you have no entries for the schedules, please write "None" or "Nothing to Report" on them. That way, we know that you have no sales of those types to report for the period.

3. Distributors: Be sure to synchronize your stamping machines and scan all stamps

It's critical for cigarette distributors to synchronize their stamping machines and scan all cigarette tax stamps before applying the stamps to cigarette packs. Unscanned stamps are not valid.

To properly scan stamps, you must keep your stamp machine synchronized with the state's database. This is true whether you use a high-volume stamp machine or the low-volume model.

If you're using a high-volume machine, be sure to leave the power on even during nonstamping hours so that the machine can properly synchronize. This will allow the stamp vendor to extract stamping information from the machine and download software updates as necessary.

If you're using a low-volume machine, you must scan all stamps individually or process them in batch mode. Here are a few reminders about using the low-volume equipment:

- You need to synchronize the scanner by telephone or Internet connection *each day* after stamping is complete.
- If you have not synchronized for several days, you should connect before starting to stamp to ensure the most current stamp roll information is uploaded to your machine.
- Batch processing requires you to scan at least the first and last stamp of each roll. If you are using a partial roll, you must scan the starting and final stamp in the batch.
- When batch processing, you cannot scan the stamps from two different rolls as your first and last stamps. If this occurs, your stamp count is likely to be wrong.

If you have a high-volume machine and hand apply stamps from the 30,000-stamp roll, you must scan each individual

stamp. There is no way to batch process large stamp rolls.

You must scan your stamps even if you have problems with your low-volume scanner. If your equipment is not working properly, please contact Form 10 Group immediately for technical assistance: 408-988-0110.

4. AB 1749 changes various aspects of cigarette and tobacco products law

New legislation, Assembly Bill 1749 (Stats. 2006, ch. 501), is intended to provide an additional enforcement tool to address the illegal distribution and sale of untaxed tobacco products in California. In general, it requires manufacturers and importers of tobacco products other than cigarettes to comply with the invoicing and recordkeeping requirements applied to manufacturers and importers of cigarettes under the Cigarette and Tobacco Licensing Act of 2003 (AB 71).

AB 1749 is effective January 1, 2007, but some of its provisions are not operative until May 1, 2007. We will be sending you more information about how the new law affects you. Meanwhile, you may want to read the bill yourself (see box page 4).

New requirements for manufacturers and importers

Among other things, AB 1749

- Requires every manufacturer or importer of tobacco products (other than cigarettes) who wishes to sell in California to obtain and maintain a license under the Cigarette and Tobacco Products Licensing Act of 2003. The licenses will be required as of May 1, 2007.
- Defines an importer as someone who buys cigarettes or tobacco products manufactured outside the United States with the intent of reselling or distributing them for the first time in the United States.
- Requires manufacturers and importers to file monthly electronic reports with us. The reports are required to include (1) a list of all licensed distributors that received the manufacturer's or importer's tobacco products, and (2) the products' total wholesale cost.

Additional provisions

In addition to the provisions specific to manufacturers and importers, AB 1749 also

- Prohibits a retailer, wholesaler, or importer from purchasing cigarettes or tobacco products from

anyone who is not licensed or whose license has been suspended or revoked; makes manufacturer and importer prohibitions consistent.

- Repeals the January 1, 2010, sunset date of the Cigarette and Tobacco Products Licensing Act of 2003 and indefinitely extends the arrest and warrant-serving powers of our staff.
- Allows additional stamp payment deferral alternatives for cigarette distributors and extends the twice-monthly payment option.
- Increases the penalties for counterfeiting stamps, possessing for sale any package of cigarettes without a stamp, and transporting cigarettes or tobacco products in California without a permit.

5. Sign up for e-mail notice of tax changes

If you'd like to receive e-mail notice of changes affecting cigarette and tobacco product taxes, regulations, or procedures, now's your chance to sign up. Just go to this page on our website: www.boe.ca.gov/sptaxprog/etfd/index.htm.

EMERGENCY TELEPHONE USERS SURCHARGE

6. Emergency telephone users surcharge rate reduced

On August 29, 2006, the emergency telephone users surcharge was reduced to 0.50 percent of charges for services. The surcharge applies to charges for telephone service within California (intrastate charges). The new rate went into effect on November 1, 2006, and will remain in effect through October 31, 2007.

CALIFORNIA TIRE FEE

7. California tire fee to stay \$1.75 per tire

The California tire fee rate was scheduled to drop to \$1.50 per tire on January 1, 2007. However, legislation passed this year extended the current \$1.75 per tire rate until January 1, 2015.

The fee applies to the retail sale of any of the following new tires:

- Solid or pneumatic tires intended for use with on-road and off-road motor vehicles or motorized equipment.
- New tires sold with a new or used vehicle, including the spare tire.
- New tires sold with construction equipment or farm equipment.

When you sell or lease a vehicle with new tires, you owe the fee at the time of the sale or lease.

If you have questions about the tire fee, please call us at 800-400-7115.

ALL EXCISE TAX AND FEE PROGRAMS

8. Annual Taxpayers' Bill of Rights Hearings

Do you have suggestions for improving our services? Do you want us to look more closely at a tax or fee issue?

Come share your ideas and concerns with the elected Members of the Board of Equalization at the annual Taxpayers' Bill of Rights Business and Property Taxes Hearings. You may present your proposal orally or in writing. ►

Have you posted your cigarette decal?

Back in September, we mailed a blue and white decal to all cigarette retailers. You can use it to notify your customers that they'll owe tax on their cigarette and tobacco purchases when they buy from an online or mail order retailer. To order additional decals, call us at 916-327-4208 or go to www.boe.ca.gov.

**Buy Cigarettes
or Tobacco
Online or
by Mail?**

You must pay state taxes
if the seller does not collect
them from you.

California taxes apply to all purchases of
cigarettes and tobacco products.

If you buy online or by mail,
the Board of Equalization may contact you.

For more information call:

916-327-4208

Excise Taxes and Fees Division
State Board of Equalization
www.boe.ca.gov

The 2007 hearings will be held in

- Culver City on February 27, 2007
- Sacramento on March 20, 2007

Both hearings will start at approximately 1:30 p.m.

Although you are not required to make advance arrangements to speak, it would help us to prepare if you contact the Taxpayers' Rights Advocate Office before the hearing to let them know your topic. You may call the office staff toll-free at 888-324-2798.

If your proposal is complex or extensive, we encourage you to submit it in advance and then summarize it in your oral presentation. For more details, please call the number above or visit us online at www.boe.ca.gov/tra/tra.htm.

For more information on the hearings, see www.boe.ca.gov/meetings/heartra.htm.

9. Do you have a hearing pending before the Board? Our new video can help

If you have an appeal hearing scheduled with the Board of Equalization, watch for our new video, *Your Appeal Hearing Before the Board Members*.

Our Taxpayers' Rights Advocate worked with other Board departments in developing the video, which is intended to help you prepare for your hearing. You'll receive a copy along with your notice of hearing and other pre-hearing materials.

The video can make the hearing process less intimidating by showing the forms you will be asked to complete, explaining how to submit materials and ask for help, and showing scenes of actual Board hearings.

If you'd like to view the video before you receive your copy, go to this page on our website and click the video link: www.boe.ca.gov/meetings/appealhearing.htm.

Written information also available

For answers to frequently asked questions about the hearing process, you may wish to obtain our publication 142, *Hearings, an Introduction*. More extensive information is found in publication 143, *Your Appeal Hearing Before the Board Members*. You can download publications from our website, order printed copies using our online order form, or call our Information Center for copies.

10. Civil behavior in trying times

Some observers have noted that civility is decreasing in our society as our lives become more complex. We know that you may find yourself frustrated with the difficulties of the tax law or pressed for time when dealing with

our staff. Still, we ask that you treat our employees just as you would like to be treated in a business situation.

Any statement made to a Board of Equalization employee that seems remotely like a threat—even a statement made in jest—will be referred to our Internal Security and Audit Division for investigation.

11. Ethics at work—"thank you" is enough

During the holiday season, many of you offer gifts to customers, suppliers, and other business contacts. We must ask, however, that you not extend your generosity to our employees. A simple "Thank You" or "Happy Holidays" will do—and will be much appreciated, we're sure! Board of Equalization policy prevents our employees from accepting gifts of any type.

FOR MORE INFORMATION

Board Member contact and website. Visit our website: www.boe.ca.gov for Board Member information, legislative summaries, regulations, forms and publications, and more.

Information Center: 800-400-7115

TDD/TTY: 800-735-2929

Representatives are available to help you from 8:00 a.m. to 5:00 p.m., Pacific time, M-F, except state holidays.

Excise Taxes and Fees Division

Write to us at:

Excise Taxes and Fees Division, MIC:56
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0056

Or call us at 916-327-4208.

Tax Evasion Hotline. Call toll-free to report suspected tax evasion, 888-334-3300.

Taxpayers' Rights Advocate. Call toll-free for help with problems you have been unable to resolve through normal channels, 888-324-2798.

Copies of Legislative Bills. Write to the Legislative Bill Room, State Capitol, Room B-32, Sacramento, CA 95814. Or visit the following website: www.leginfo.ca.gov/bilinfo.html. Be sure to read the "chaptered" (final) version of the bill.

The Legislative Bill Room does not provide copies of our forms and publications.